

Message Text

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USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

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FM AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 17622

DEPARTMENT PASS TREASURY, FRB, NSC

E.O. LL652: N/A

TAGS: EFIN, UK

SUBJECT: THE CABINET AND PUBLIC EXPENDITURE CUTS

REF: LONDON 17423

1. THE PAINFUL PROCESS OF REACHING DECISIONS ON WHETHER TO CUT PUBLIC EXPENDITURES, WHERE TO MAKE THE CUTS, AND BY HOW MUCH CONTINUES TO BE A PRINCIPALPRE-OCCUPATION OF THE LABOR CABINET. LATER REPORTS OF THE CABINET MEETING OF LAST TUESDAY INDICATE THAT THE EARLY REPORTS CITED IN REFTEL MAY NOT HAVE BEEN ACCURATE EITHER AS REGARDS THE GENERAL VIEW WITHIN THE CABINET OR THE POSITION OF AT LEAST ONE SENIOR MINISTER.

2. A REPORT IN FRIDAY'S TIMES MADE TWO POINTS: THAT THERE WAS STRONG OPPOSITION IN THE CABINET, STEMMING NOT ONLY FROM LEFT-WINGERS LIKE BENN AND SHORE BUT ALSO FROM ANTHONY CROSLAND, TO MAKING FURTHER SPENDING CUTS; AND THAT THE PACKAGE OF MEASURES BEING PREPARED BY
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HEALEY INCLUDES NO EXPENDITURE CUTS, BUT IS LIMITED TO

INDIRECT TAX INCREASES. A GENERALLY SIMILAR STORY IN THE GUARDIAN OF FRIDAY SAID THAT BENN, SHORE, AND CROSLAND OPPOSED "MASSIVE" CUTS AND THAT THE CHANCELLOR'S PACKAGE WOULD "CONCENTRATE ON TAX MEASURES WITH ONLY A MODEST CONTENT OF EXPENDITURE CUTS, CONCENTRATED IN ONE OR TWO CLEARLY DEFINED AREAS."

3. SATURDAY'S PAPERS PRODUCED A QUICK TURNAROUND. THE TIMES, IN A STORY BY THE AUTHOR OF FRIDAY'S REPORT, SAID THAT ADDITIONAL INFORMATION ON THE TUESDAY CABINET HAD BECOME AVAILABLE. THE DISCUSSION WAS MORE ON HOW THE GOVERNMENT COULD MONITOR PLANNED REDUCTIONS IN 1977-78 EXPENDITURES THAN OVER FURTHER CUTS. CABINET SOURCES INDICATED THAT CROSLAND DID NOT PARTICIPATE AFTER ALL. AND CLOSE COLLEAGUES OF CROSLAND SAID HE HAD YET TO MAKE UP HIS MIND ON FURTHER CUTS IN PUBLIC SPENDING. CABINET SOURCES WERE ALSO REPORTED AS SAYING THAT THE GOVERNMENT WOULD NOT CONSIDER ANOTHER ECONOMIC PACKAGE "UNTIL THE TALKS NEXT WEEK WITH THE IMF HAVE BEEN COMPLETED". HOWEVER, TREASURY IS WORKING ON CONTINGENCY PROPOSALS.

4. THE FINANCIAL TIMES OF SATURDAY SAID THAT THE GOVERNMENT IS WORKING ON A PACKAGE FOR ANNOUNCEMENT IN LATE NOVEMBER AFTER THE VISIT TO LONDON OF IMF OFFICIALS. SOME MINISTERS, NOTABLY BENN AND SHORE - HAVE BEEN ARGUING FORCEFULLY IN CABINET AGAINST ANY FURTHER SPENDING CUTS, "BUT THEY ARE FAR FROM HAVING WON THEIR CASE". ALL OPTIONS REMAIN OPEN. CONTINGENCY PLANS ARE NOW BEING DRAWN UP BY SPENDING DEPARTMENTS. THESE WERE DISCUSSED AT TUESDAY'S CABINET; "ALTHOUGH DISCUSSIONS ARE AT AN EARLY STAGE MINISTERS SEEM RESIGNED TO AN ELEMENT OF PUBLIC SPENDING CUTS APPEARING AS PART OF ANY PACKAGE. WHAT

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DEPT PASS TREASURY FRB NSC

REMAINS TO BE DECIDED IS WHERE THE AXE WILL FALL'. THE REPORT THAT CROSLAND OPPOSED NEW CUTS "WAS STRONGLY DENIED YESTERDAY BY CLOSE ASSOCIATES". HE DID NOT PARTICIPATE IN TUESDAY'S DISCUSSION; HE WAS OPPOSED TO THE LAST BATCH OF CUTS BUT IS SAID TO HAVE AN OPEN MIND ON THE NEED FOR FURTHER CUTS.

5. SEVERAL THINGS SEEM APPARENT FROM THESE REPORTS:

A. THE POSSIBILITY OF SPENDING CUTS IS FAR FROM FORECLOSED BY THE CABINET.

B. OPPOSITION TO THEM MAY IN FACT BE LIMITED;

CROSLAND APPARENTLY SHOOK OFF HIS NORMAL LETHARGY IN ORDER TO MAKE SURE THE LABEL OF AN OPPONENT DIDN'T STICK TO HIM.

C. IDEAS OR PLANS FOR POTENTIAL CUTS ARE FLOATING AROUND IN WHITEHALL. AND DISCUSSION MAY EASILY SLIDE FROM WHETHER CUTS SHOULD BE MADE, TO WHERE.

. IT APPEARS THAT THERE IS AT LEAST RESIGNATION REGARDING SOME CUTS AMONG A LARGE PART OF THE LABOR
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MOVEMENT. EVEN A LEFT-WING TUC LEADER HAS ADMITTED TO US THAT SOME CUTS ARE POSSIBLE - OF PROGRAMS LIKE ROAD BUILDING, SUPPORT TO LOCAL GOVERNMENTS. AND GENERAL ADMINISTRATIVE COSTS.

7. THE EMBASSY BELIEVES THAT THE PACKAGE HEALEY EVENTUALLY ANNOUNCES WILL INCLUDE BOTH TAX INCREASES (BOOSTING INDIRECT TAXES BY ABOUT 1 BILLION POUNDS) AND EXPENDITURE CUTS. THE VOLUME OF THE LATTER IS PROBABLY STILL A MATTER FOR DECISION: 1 BILLION POUNDS APPEARS TO BE THE MAXIMUM UNDER CURRENT DISCUSSION. SOME POLITICAL OBSERVERS THINK THAT 500 TO 750 MILLION

POUNDS IS A MORE LIKELY RANGE (BUT THE IMF TEAM'S
VIEWS COULD PRESUMABLY BE A COUNTERWEIGHT IN THE
EVENTUAL DECISION). WHILE THERE IS AWARENESS THAT A
LARGE, ROUND FIGURE WOULD BE PSYCHOLOGICALLY MORE
EFFECTIVE, THE EXCLUSION OF CERTAIN PROGRAMS OR TYPES
OF CUT FROM THE PACKAGE MAY EFFECTIVELY LIMIT ITS SIZE.

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